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Hungarian Export Trade and the IMPEX Agencies

From 1949 to 1956 all Hungarian import and export trade was conducted via specialized trading agencies, the so-called IMPEXES. ELEKTROIMPEX, for example, had a monopoly on the import and export of electrical and telecommunications equipment. So far as concerned exports, the IMPEXES acted as middlemen between Hungarian factories and the nation's foreign customers. The IMPEXES purchased goods from Hungarian factories and sold them to firms abroad as described below. One of the serious weaknesses in Hungarian trade negotiations, however, was that the IMPEXES did not have their own technical experts, and were thus in an inferior position in technical discussions with foreign firms and customers. Most of the important positions in the IMPEXES were held by Party members with no specialized background and without facility in foreign languages. Between 80% and 90% of such officials, [redacted] 50X1-HUM had been small Jewish shopkeepers who had joined the Party and gone into government work after their shops had been nationalized.

In the early stage of communist control over industry (i.e., 1949-50), central economic planning and the Hungarian export practice were based primarily on existing production facilities as well as on anticipated future production as envisaged by the factory managements. Already at this time, however, the specific demands which had been coming from the Soviet Union often included items not previously produced or planned for in Hungary. Coordination between factory production data and foreign orders (virtually all Soviet) was begun, but factories initially continued operating according to the earlier state plans. This meant that orders for new lines of Hungarian equipment could be accepted only for long-term delivery. A medium-sized project such as a radio broadcasting station, for example, could be accepted only for two-to-four-year delivery, longer for large-scale projects such as power plants, and still longer for equipment requiring sweeping new designs. As a result, by the time of delivery, equipment would no longer be up to date and, very often, would even be obsolete.

Because of this inflexibility of the production system, exports to advanced Western countries was out of the question. Virtually all Hungarian exports were confined to the Soviet bloc except for a very small percentage going to South American and Asian countries. As regards Soviet-bloc trade, all had to be channeled at prices very unfavorable to Hungary via the Soviet Union which acted either as a direct customer in its own behalf or as a profit-making middleman for the rest of the bloc. As a result, Hungary had a negative foreign trade balance which by 1953 critically affected the state budget.

One of the planks of Imre NAGY's "new course" in 1953 was the restoration of a healthy foreign trade. In the industrial sphere, this was to be accomplished by providing more engineers and technical experts to increase and improve design and development capacity so as to develop modern equipment and speed up production rates. In the trade agency sphere, experts were to be assigned to the IMPEXES to fortify them for their technical discussions with foreign firms. It was hoped that these two measures would enable Hungary to export outside the Soviet bloc and thus enable it to regain a favorable trade balance. Several new items were, in fact, developed in 1953-1954 with a view toward sales possibilities in the free world. Coordination between foreign customers and factories, however, was still clumsy because of the ineffective role played by the IMPEXES. They had only a relatively small number of experts and even these were not sufficiently familiar with the capabilities of individual factories. Consequently, it frequently became necessary to call in "outside" experts from the factories during IMPEX negotiations with foreign customers.

Finally, in the spring or summer of 1956, a drastic change took place when all but a very small portion of Hungarian export trade jurisdiction was removed from the IMPEXES. Under a decree published in the official gazette, five of the largest plants engaged in the production of export items (Egyesult Izzo; Csepel Kerekpar-es Varrogepgyar; Orvosi Muszer-es Keszulekgyar; Beloiannisz Hiradastechnikai Gyar; and, [redacted] Chinoin) were designated to export their own products as in pre-1949 days. The IMPEXES, however, retained monopoly rights in the field of import, and, in addition, continued to deal in the export of the few products not manufactured by any of the five companies. 50X1-HUM

The five factories named in the decree set up their own export departments with "neutral" names, in other words, a name other than the communist or pre-communist title of the factory. The export department of the Beloiannisz factory (formerly Standard), for example, is now called Budavox. The chiefs of these so-called independent export firms were subordinate to the managers of their corresponding factories, and can use the factory technical personnel.

Accounting System

Since 1949, Hungarian factories have had no control over the foreign currency which the Government received for the factories' products. [redacted] 50X1-HUM

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[redacted] this is the principle defect of the Soviet-type foreign trade system. [redacted] An initial effort was made to solve this problem by joining export firms to producing factories. It was not successful because the producing companies were still not authorized to deal in foreign currencies and were unable to use any part of the foreign exchange they earned for their own development. In 1956, before, during and after the revolution, this problem was often discussed. During the revolution, the factories wanted to put all foreign trade (i.e., exports and imports) in the hands of factory managers who, in turn, would be checked by the Workers' Councils, substantially as is practiced in Yugoslavia. 50X1-HUM

The bulk of Hungarian exports continues to be destined for the unprofitable trade with the Soviet Union and its satellites. This pattern is set by the National Planning Office which permits only a small fraction of Hungarian production to be sold to non-bloc countries. Since the U.S.S.R. needs a huge amount of products for its domestic market as well as for administrative and military purposes, and since the satellites can supply but a fraction of this need, it is envisaged that all the satellites, including Hungary, will continue to concentrate the bulk of their production for trade with the Soviet Union. This is especially true [redacted] for industries like telecommunications, tool machine, and precision equipment which have military significance. 50X1-HUM

Hungarian Foreign Trade Agreements

1948-49 to 1953: During the period of rapid heavy industrialization (1948-49 to 1953), Hungarian export trade was based on the corresponding products. This was an expensive proposition for Hungary because of its lack of heavy industrial experience prior to 1948-49, and because of the necessity to import virtually all of the raw materials needed. Since the bulk of Hungarian export products were deliberately derived from this unprofitable industrial sector, the nation's entire trade balance was negative. Another unfortunate aspect for Hungary was that the consequent high prices and poor quality of its products prevented it from doing business with the advanced Western hard-currency states, or even most of the other non-satellite countries. Instead, Hungary's export market was largely confined to its least profitable trading partners, the Soviet bloc (see above).

1953 to Present: Since 1953, there have been some significant changes. Hungarian production emphasis has been switched from heavy industrial to lighter industrial products that require a maximum of technical knowledge for their production. These include telecommunications equipment, measuring gauges, optical instruments, testing apparatuses, precision machines, and the like. With these products, Hungary renewed its efforts to capture some of the profitable market outside the Soviet bloc. It is only through such trade that Hungary can earn the dollars or other hard currency with which to buy raw materials. At the same time, however, Hungary has been obliged to continue deliveries (at a loss) to the bloc of such heavy industrial products as ships, cranes and railroad rolling stock. Only a small portion of these heavy industrial products can be sold outside the bloc [redacted] 50X1-HUM

Even the post-1953 trade with non-bloc countries was foredoomed, however, by the very nature of the communist system. One fault lay in the approach to trade negotiations taken at the top governmental level (i.e., ministers and deputy ministers of foreign trade and various industrial ministries, sometimes even the Prime Minister or his deputies) at which trade protocols are made. With little or no regard to production and delivery capabilities, the top level Hungarian negotiators acted on the principle that their success is measured by numerical standards; the greater the volume of trade and the number of years covered, the more noteworthy the achievement is considered. Hungarian officials on the ministerial level are not sufficiently well versed technologically to judge whether Hungarian industry is capable of fulfilling such agreements, nor do they care, since their responsibility ends with making the agreement per se. Consequently, the negotiating officials have often committed Hungary to the delivery of items not yet in production or of non-standard types very difficult to place into production. This was particularly true in connection with exports to Asian countries, including Communist China, where the Hungarian negotiators were provoked into making wild promises in the face of stiff competition from the West in regard to variety, quality, and quantity of goods.

In the Hungarian factories with which the IMPEXES actually made purchase contracts for the items to be exported, the situation was similar. The factory management, i.e., Director, Chief Engineer and Chief Accountant, was materially interested in exporting as great a volume of goods as possible, since its chances for extra bonuses and achievement records were enhanced thereby. Moreover, personnel at the management level obtained their positions more on the basis of political reliability than for technical or professional capability. As a result of these two factors, many of the contracts they undertook could not be fulfilled, either because of short delivery terms, or because of the special technical characteristics of the items to be manufactured. Although management vainly tried to press their subordinates to meet the terms of such contracts, it often happened that even the necessary raw materials did not arrive by the time of the scheduled delivery date for the final products. Consequently, it was a common practice for management to negotiate with foreign customers for an extension of deadlines. Such discussions were always attended by an interested IMPEX or middle-level Ministry of Foreign Trade official.

<u>Microwave Agreement with China</u>

[redacted] the following example of typical Hungarian foreign trade procedure. In 1955, Hungary began discussions with Communist China concerning export to the latter of a number of microwave links for the simultaneous transmissions of voice without cables or wires. A general agreement was concluded providing for delivery of a number of 24-channel stationary microwave links ([redacted] four terminal and two relay stations may have been involved in all) for long-distance telephone use. Ten mobile six-channel links were to be delivered during the second half of 1956, and more of each of the

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two types

two types in 1957. The technical specifications, however, were such that the first models scheduled for delivery were not working satisfactorily even by March 1957. Not only had production only barely started, but the necessary testing apparatus, special electron tubes, and other component parts were not yet available. Even the workshop at the BHG, where the equipment was to be produced, was still being organized during the first months of 1957.

As a result of this fiasco, the chief engineer of BHG, Laszlo HERMANN, who was responsible for the agreement, was removed in December 1956. (He was made a director of Audio, a radio factory in Budapest of much less significance.) Hermann's place at BHG was taken by Oszkar KAS in mid-January 1957. After Hermann's removal, BHG requested its Communist Chinese customer to permit postponement of Hungary's first delivery until the second quarter of 1957. This first delivery was to include the same number of 24-channel microwave links as originally agreed upon, but only two prototypes of six-channel apparatuses for training purposes (and cancellation of further deliveries of the latter type). Since there was still a shortage of measuring apparatuses and component parts as well as an intensified shortage of experts after the revolution, even these modified delivery terms coudn't be fulfilled.

Prices: As in all intra-bloc agreements, prices for the microwave links were quoted to the Chinese in Soviet rubles. Since precise production costs could not yet be calculated, prices were estimated on the basis of prices of other similar products. Actual production, however, involved special materials, procedures, and research and development activities that caused huge unforeseen expenses, so that the actual cost of production was much higher than the estimate. The price of each 24-channel microwave link, for example, was first estimated at either 130,000 or 160,000 rubles [redacted] The foreign trade exchange rate was one ruble for three forints (even though the official exchange rate was about one to one). Hungary was therefore to receive less than 500,000 forints for each piece of equipment delivered. Even before finishing the job, however, costs mounted to about 800,000 forints per microwave link, not counting research and development costs, which added several hundred thousand forints more per link.

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The agreement also bound Hungary to deliver two kinds of electron tubes bought by BHG from Egyesült Izzo (United Incandescent; formerly Tungsram). One of these, internationally known as 707-B klystron tubes (Hungarian designation: MK-1) [redacted] Hungary was to deliver several hundred of these at a price of about 35 rubles each. The other tubes, [redacted] Inter-digital Magneton, [redacted] in Hungary as ZT-101, were to be delivered at between 40 to 60 rubles each. Even Egyesült Izzo's price to BHG (700 forints for the former and 1100 forints for the latter) was much higher than the price to the Chinese.

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